

Message Text

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TAGS: EGEN, ECON, XC, XE, XP

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT,
MAY 31, 1977

1. PACIFIC BASIN: LARGER ROLE IN WORLD TRADE
(CONFIDENTIAL)

THE PACIFIC BASIN COUNTRIES LED BY JAPANESE AND LDC
SALES TO DEVELOPED COUNTRY MARKETS ARE CAPTURING A LARGER
SHARE OF WORLD TRADE. THEY BOOSTED FOREIGN SALES 25
PERCENT IN 1976 AND HIKED THEIR SHARE OF GLOBAL EXPORTS
BY 2 PERCENTAGE POINTS TO NEARLY 14 PERCENT. THE
MANUFACTURING COUNTRIES OF EAST ASIA -- JAPAN, HONG KONG,
TAIWAN AND SOUTH KOREA -- POSTED VALUE INCREASES OF
21-56 PERCENT. ALL FOUR ALSO RECORDED SUBSTANTIAL VOLUME
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GAINS. THE RAW MATERIAL EXPORTERS ALSO TURNED IN A
CREDITABLE PERFORMANCE.

SINCE THE 1974-75 RECESSION, THE IMPORTANCE OF THE US
MARKET IN BASIN TRADE HAS GROWN SHARPLY. IT HAS ABSORBED
55 PERCENT OF THE INCREASE REGISTERED IN INTRA-BASIN
EXPORTS IN 1975-76. INDEED, THE DOMINANCE OF THE US IN
INTRA-BASIN TRADE HAS MASKED THE SLIPPAGE IN REGIONAL
TRADE INTERDEPENDENCE. THIS SLIPPAGE HAS BEEN MOSTLY DUE

TO JAPAN'S SLOW INDUSTRIAL RECOVERY WHICH KEPT IMPORT DEMAND FOR RAW MATERIALS WELL BELOW PRE-RECESSION LEVELS.

2. CIEC MINISTERIAL (CONFIDENTIAL)

THE OUTCOME OF THE CIEC MINISTERIAL IS STILL MURKY. THE SENIOR OFFICIALS MEETING LAST WEEK MADE SOME PROGRESS ON THE TEXTS TO BE APPROVED ON ENERGY, DEVELOPMENT AND FINANCE, ALTHOUGH MANY FUNDAMENTAL ISSUES REMAINED UNRESOLVED. LITTLE ADDITIONAL AGREEMENT WAS REACHED IN THE RAW MATERIALS AREA.

THE SECRETARY WENT TO PARIS WITH PRESIDENTIALLY APPROVED POSITION THAT HE CAN PLEDGE "SUBSTANTIAL INCREASES" IN FUTURE US DEVELOPMENT ASSISTANCE, CONTINGENT ON CONGRESSIONAL APPROVAL, BUT COULD NOT SPECIFY A QUANTITATIVE FIGURE BECAUSE OF ADVERSE CONGRESSIONAL REACTIONS. HE IS ALSO AUTHORIZED TO PARTICIPATE IN A SPECIAL ACTION FUND FOR THE POOREST LDCS AND IF NECESSARY AGREE TO A DOLLARS 375 MILLION US CONTRIBUTION WHICH WOULD COME FROM PLANNED INCREASES IN THE FY 79 BUDGET. IN ADDITION WE WILL AGREE IN PRINCIPLE TO AN INCREASE IN REAL TERMS IN THE IBRD'S CAPITAL; WE WILL ACCEPT THE COMMITMENT THAT "THERE SHOULD BE A COMMON FUND"; WE CAN MAKE SOME MOVEMENT TOWARD ADDITIONAL MEASURES TO THE IMF COMPENSATORY FINANCING FACILITY AND UNCTAD INVOLVEMENT IN A PROPOSED

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STUDY OF EXPORT EARNINGS STABILIZATION BY THE IMF/IBRD DEVELOPMENT COMMITTEE; WE WILL SEEK AGREEMENT TO ESTABLISH A POST-CIEC ONGOING ENERGY DIALOGUE; WE WILL SEEK DEVELOPING COUNTRIES' RECOGNITION OF THE IMPORTANCE OF THE INVESTMENT CLIMATE; AND WE WILL SEEK LANGUAGE IN THE FINAL COMMUNIQUE WHICH ADDS MOMENTUM TO THE MULTILATERAL TRADE NEGOTIATIONS. THERE WAS SOME LAST MINUTE CHANGE IN OUR POSITION ON THE QUESTION OF CONTINUING CIEC, BROUGHT ABOUT BY LAST WEEK'S DISCUSSIONS WITH THE SAUDIS HERE IN WASHINGTON. BUT IN THE END THE SECRETARY'S SPEECH ONLY SAID THAT WE HAVE AN OPEN MIND ON HOW THE ONGOING NORTH-SOUTH DIALOGUE SHOULD BE CONTINUED.

THE FIRST DAY OF THE MINISTERIAL MEETING WAS TAKEN UP BY THE STATEMENTS OF THE G-8 MINISTERS. THE G-19 ARE TO REPLY THROUGH ONE SPOKESMAN TODAY. IN THE MEANTIME THE MINISTERS FORMED THEMSELVES INTO WORKING GROUPS TO COME UP WITH A FINAL DOCUMENT ON EACH OF THE FOUR AREAS OF CIEC DELIBERATIONS.

3. US-ASEAN CONSULTATIONS (CONFIDENTIAL)

WE HAD A REPLY FROM THE PHILIPPINE INTERLOCUTORS ON

WHAT ASEAN WISHES TO DISCUSS WITH US UNDER THEIR SUGGESTED AGENDA ITEM OF "US DEVELOPMENT COOPERATION WITH ASEAN". ASEAN WAS INTERESTED IN SCIENTIFIC AND TECHNICAL COOPERATION IN THE FIELDS OF FOOD, AGRICULTURE AND FORESTRY AND COMMUNICATIONS AND TRANSPORTATION. ASEAN COUNTRIES ARE NOW CONSIDERING SPECIFIC PROJECTS. ASEAN WOULD WELCOME AND CONSIDER WHAT THE US HAS TO OFFER.

IN A SEPARATE COMMENT, THE GOP CONTACT WAS OPPOSED TO THE PROPOSED BUSINESS SEMINAR TO BE HELD IN OCTOBER BY THE ASIA SOCIETY FOR ASEAN BUSINESS. THE ASIA SOCIETY IS NOT CONSIDERED AS THE BEST VEHICLE FOR SUCH A MEETING AND CONFIDENTIAL

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ABOVE ALL, THE GOP FEELS THAT THIS IS A MATTER WHICH OUGHT TO BE HANDLED BY THE DEPARTMENT OF STATE AND THE ASEAN GOVERNMENTS THROUGH THEIR FOREIGN OFFICES.

4. INTERNATIONAL SUGAR AGREEMENT (ISA) TALKS END WITHOUT AGREEMENT (CONFIDENTIAL)

ON MAY 27, AFTER SIX WEEKS OF MEETINGS, THE NEGOTIATIONS FOR A NEW ISA WERE SUSPENDED. THE CHAIRMAN INTENDS TO CONVENE A TECHNICAL WORKING GROUP IN LONDON IN THE LATTER PART OF JULY AND WILL DECIDE AT THAT TIME WHETHER AND WHEN TO RECOMMEND THAT THE CONFERENCE BE RECONVENED. THE OUTLOOK FOR AN EVENTUAL AGREEMENT IS NOT HOPEFUL. SEVERAL OF THE EXPORTERS ARE NOT COMMITTED TO A NEW ISA: THE DOMINICAN REPUBLIC IS OPPOSED, BRAZIL IS AMBIVALENT, CUBA IS INFLEXIBLE IN ITS SUPPORT OF A 1968 TYPE ISA AND THE PHILIPPINES WERE HARDLY PARTICIPATING IN THE CONFERENCE. ON THE CONSUMER SIDE, EXCEPT FOR THE US, THERE WAS LITTLE INCLINATION TO CONTRIBUTE TO BUFFER STOCK FINANCING. PARTICULARLY THE JAPANESE APPEARED PANIC STRICKEN EVEN AT THE SUGGESTION OF A SMALL EXPORT TAX TO FINANCE CARRYING COSTS. WE DO NOT KNOW WHAT EFFECT THE SUSPENSION OF THE NEGOTIATIONS WILL HAVE ON DOMESTIC SUGAR POLICY. HOWEVER, IT IS LIKELY THAT THE INTERNATIONAL SUGAR PRICE WILL DECLINE AND THUS DOMESTIC PRESSURE FOR MORE PROTECTIONIST MEASURES WILL INCREASE. EB HOPES WE CAN WITHSTAND THESE PRESSURES UNTIL WE SEE IF THE CONFERENCE WILL BE RECONVENED.

ON ANOTHER FRONT, THE TRADE POLICY REVIEW GROUP DECIDED NOT TO REDESIGNATE AT THIS TIME ANY COUNTRIES ELIGIBLE FOR SUGAR, ALTHOUGH WE HOPE TO REVIVE THE ISSUE IN COOPERATION WITH EB AND ARA.

5. SECOND UNCTAD PREPARATORY MEETING ON COPPER (CONFIDENTIAL) CONFIDENTIAL

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THE SECOND PREPARATORY MEETING ON COPPER ENDED MAY 20 WITH AN AGREEMENT TO RECONVENE THE EXPERT GROUP (IEGC) TO CARRY OUT FURTHER WORK, INCLUDING THE CONSIDERATION OF A POSSIBLE PRODUCER CONSUMER FORUM. THE UNCTAD SECRETARIAT WILL PREPARE FOR SUBMISSION TO THE IEGC A STUDY OF THREE ALTERNATIVE TYPES OF BUFFER STOCK ARRANGEMENTS. ALTHOUGH PERU TRIED TO RENEW THE CONFRONTATIONAL ATMOSPHERE OF THE FIRST PREPARATORY MEETING, SEVERAL OTHER LDCS, INCLUDING INDONESIA, LARGELY SUCCEEDED IN COUNTERING THIS MOVE.

6. HUMAN RIGHTS (UNCLASSIFIED)

THE US EXECUTIVE DIRECTOR IN THE IBRD HAS SO FAR BEEN INSTRUCTED TO ABSTAIN ON LOANS TO TWO AFRICAN COUNTRIES, ETHIOPIA AND BENIN. THE ABSTENTION ON TWO LOANS TO BENIN ON MAY 27 RESULTED IN A GENERAL ATMOSPHERE WHICH THE US EXECUTIVE DIRECTOR DESCRIBES AS EXTREMELY BAD. THREE AFRICAN EXECUTIVE DIRECTORS CHALLENGED THE US POSITION AS BEING INCONSISTENT WITH THE BANK'S ARTICLES OF AGREEMENT. SEVERAL OTHER DIRECTORS EXPRESSED THEIR CONCERN AFTER THE MEETING OVER WHERE THE US WAS HEADING IN THE WORLD BANK ON THIS ISSUE. THEY EXPRESSED PARTICULAR BEWILDERMENT OVER THE CRITERIA BY WHICH BENIN HAD BEEN SINGLED OUT IN CONTRAST, FOR EXAMPLE, TO INDONESIA AND ROMANIA WHICH HAD PRECEDED IT ON THE SAME AGENDA. THE US EXECUTIVE DIRECTOR IN A MEMORANDUM TO FRED BERGSTEN STRONGLY QUESTIONS THE WISDOM OF OUR PRESENT COURSE, HE IS NOT PERSUADED THAT IT WILL ADVANCE THE CAUSE OF HUMAN RIGHTS AND EXPRESSES HIS FEAR THAT IT MAY HAVE ADVERSE EFFECTS ON US INTERESTS IN THE BANK.

7. ASEAN USE OF INDONESIAN SATELLITE (LIMITED OFFICIAL USE)

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INDONESIAN GOVERNMENT AND INDUSTRY SOURCES REPORT THAT THAILAND AND THE PHILIPPINES MAY BE NEAR A DECISION TO USE THE INDONESIAN DOMESTIC SATELLITE PALAPA FOR THEIR RESPECTIVE DOMESTIC COMMUNICATIONS SYSTEMS INSTEAD OF INTELSAT. PALAPA WILL PROBABLY NOT BE USED AS AN ASEAN REGIONAL SATELLITE DUE TO INTELSAT REGULATIONS WHICH AT PRESENT BAR SUCH REGIONAL USE. IN THE

MEANTIME ASEAN IS FORGING AHEAD WITH ITS SUBMARINE CABLE NETWORK TO IMPROVE TELECOMMUNICATIONS LINKS OF THE MEMBER COUNTRIES. THE NETWORK SHOULD BE COMPLETED BY 1982, COST SEVERAL HUNDRED MILLION AND OWNERSHIP OF THE ENTIRE NETWORK WILL BE SHARED AMONG THE FIVE COUNTRIES

ONCE IT IS COMPLETED.

8. DEPARTMENT PRESSES ON ILLICIT PAYMENTS AGREEMENT
(CONFIDENTIAL)

THE DEPARTMENT IS FOLLOWING UP ON THE LONDON SUMMIT STATEMENT ON ILLICIT PAYMENTS, ASKING THAT A DEMARCHE SUPPORTING WORK ON AN INTERNATIONAL AGREEMENT BE MADE TO THE FOREIGN MINISTERS OF THE SUMMIT COUNTRIES AND THOSE DEVELOPED COUNTRIES INVOLVED IN THE ECOSOC WORKING GROUP ON ILLICIT PAYMENTS. THE GOAL IS TO HAVE ECOSOC, IN ITS JULY MEETING, ESTABLISH AN EXPANDED WORKING GROUP TO DRAFT A TREATY FOR SUBMISSION TO A DIPLOMATIC CONFERENCE TO BE HELD IN LONDON DURING 1978.

9. GAO TO STUDY IMPACT OF INCREASED TAXATION OF
AMERICANS OVERSEAS (UNCLASSIFIED)

WE REPORTED ON APRIL 26 THAT THE GAO INTENDED TO STUDY THE IMPACT OF CHANGES IN SECTION 911 OF THE INTERNAL REVENUE CODE. IN ADDITION TO STUDYING THE PRACTICES OF AMERICAN BUSINESSES IN HANDLING THESE TAXES THE GAO WILL TRY TO ASSESS THE EFFECT ON THE US BALANCE OF TRADE, ON
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THE INFLUENCE OF AMERICAN BUSINESS OVERSEAS AND ON THE COST OF GOVERNMENT PROJECTS OVERSEAS. GAO TEAMS WILL VISIT OVERSEAS POSTS IN ALL PARTS OF THE WORLD; AUSTRALIA, TOKYO, SINGAPORE, HONG KONG AND MANILA IN EA.

10. OCED TRADE COMMITTEE MEETING (LIMITED OFFICIAL USE)

DURING THE MAY 23 MEETING, THE TRADE COMMITTEE APPROVED A REPORT TO THE OECD COUNCIL SUPPORTING THE RENEWAL OF THE TRADE PLEDGE FOR ONE YEAR. FOUR DELEGATIONS, INCLUDING NEW ZEALAND, RESERVED THEIR POSITION ON RENEWAL UNTIL THE MINISTERIAL MEETING.

11. SPECIALTY STEEL (UNCLASSIFIED)

ON MAY 20 THE PRESIDENT REQUESTED THE ADVICE OF THE INTERNATIONAL TRADE COMMISSION REGARDING THE PROBABLE ECONOMIC EFFECT OF REDUCING OR TERMINATING THE SPECIALTY STEEL IMPORT RELIEF PROGRAM. WHILE THERE IS NO STATUTORY TIME LIMIT, IT IS EXPECTED THAT THE ITC'S REPORT WILL BE AVAILABLE IN THREE TO FOUR MONTHS AND A FINAL DECISION WILL TAKE AN ADDITIONAL FOUR TO SIX WEEKS.

12. GSP - OPEC (LIMITED OFFICIAL USE)

THE TRADE POLICY REVIEW GROUP WAS NOT INCLINED TO SUPPORT THE ELIMINATION OF THE GSP-OPEC EXCLUSION BUT DECIDED TO

ASK THE EPG TO CONSIDER THE QUESTION. WE EXPECT THAT
EPG CONSIDERATION WILL BE IN MID-JUNE.

CHRISTOPHER

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